

## EXPERIENTIAL LEARNING IN INTRODUCING IFRS AT UNIVERSITIES IN INDONESIA

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**Abstract:** *Experiential Learning in Introducing IFRS at Universities in Indonesia.* The purpose of this study is to find the appropriate learning model for accounting learning process at universities in Indonesia due to the process of convergence to IFRS that has already occurred in Indonesia. The study is conducted by reviewing, analyzing and evaluating the effects and solutions of convergence to IFRS in other countries that have already implemented IFRS. All possible accounting learning method offered by accounting lecturers in other countries are evaluated in order to find the solution that is appropriate with condition faced by Indonesian universities. The results are as follow: (i) convergence to IFRS requires that accounting learning process should underline the use of more principle-base standard, professional judgment, fair value measurement and collaboration with other professions. (ii) experiential learning through case study can be used to generate knowledge and skills of IFRS.

**Keywords:** *IFRS, accounting learning process, experiential learning, case study*

**Abstrak:** *Experiential Learning untuk Mengenalkan IFRS di Universitas-universitas di Indonesia.* Tujuan dari kajian ini adalah untuk menemukan solusi dari permasalahan terkait dengan pembelajaran akuntansi berbasis IFRS dan mengevaluasi beberapa solusi yang bisa digunakan untuk mengintegrasikan IFRS dalam kurikulum akuntansi di perguruan tinggi Indonesia. Studi ini dilaksanakan dengan melakukan revidu, analisis dan evaluasi terhadap model pembelajaran akuntansi berbasis IFRS pada negara lain yang terlebih dahulu telah mengimplementasikan IFRS. Berbagai model pembelajaran dari negara lain akan dievaluasi sehingga ditemukan model pembelajaran akuntansi yang paling tepat untuk digunakan dalam pembelajaran IFRS di Indonesia. Studi ini memberikan hasil sebagai berikut: (i) Konvergensi IFRS menimbulkan perubahan pembelajaran akuntansi di mana pembelajaran harus memfokuskan diri pada penggunaan standar berbasis prinsip, pertimbangan profesional, pengukuran nilai wajar, dan kolaborasi dengan bidang ilmu lain, (ii) studi kasus bisa digunakan sebagai metode pembelajaran akuntansi berbasis IFRS karena dengan studi kasus mahasiswa bisa mendapatkan pengalaman untuk melakukan konvergensi laporan keuangan dari basis US GAAP ke basis IFRS.

**Kata Kunci:** *IFRS, proses pembelajaran akuntansi, pengalaman belajar, studi kasus*

### Introduction

The Indonesia Accountant Organization (IAI) has already announced that Indonesia will converge from using US Generally Accepted Accounting Principles (US GAAP) in preparing financial statement to International Financial Reporting Standards.

The convergence to IFRS now is considered important because of the benefits that are offered by using international standards. It will increase comparability of financial statement internationally, raise access to international capital market, reduce conversion of financial statement and

enhance quality of financial statement (Stovall, 2010: 121). Therefore, a proper conversion plan should be made by all organizations and institutions that are affected by this decision.

Universities are the one that get impact from transition to IFRS because they play an important function in preparing accounting students to be an accountant. According to the survey conducted by Jones, et al. (2009: 91), employers in the business world requires that undergraduate students should have IFRS knowledge and skills, such as know the current status of IFRS, describe the differences between principles and rules based, define the term IFRS, compare and contrast IFRS and US GAAP, read and comprehend IFRS, apply IFRS in recording business transactions, analyze IFRS-based financial statements, use professional judgment in applying IFRS, reconcile IFRS with US GAAP-based financials, explain the standard setting process for IFRS, prepare financial statement under IFRS, and apply IFRS for private entities.

Some Indonesian universities also face some problems regarding to the convergence to IFRS. Before IFRS is implemented in Indonesia, Indonesia applied US GAAP as a standard to prepare financial statement for public companies. Therefore, the accounting learning process at universities in Indonesia also emphasized on the use of rule based standard. Students are seldom asked to use professional judgment in recording transactions and preparing financial statements. It may create a serious problem since IFRS really underline the use of professional judgment in a lot of areas. In addition, students are

also never asked to measure fixed assets by using fair value since the US GAAP required the use of historical cost to measure and value fixed assets. Fair value measurement is faced as a problem that needs attention from universities in Indonesia because it is sometimes hard to determine the appropriate fair value for fixed assets. Another problem is about the availability of text books that are already IFRS based. Because of the limited source of textbooks, some lecturers still teach financial accounting courses based on US GAAP because they only have the US GAAP textbooks. They only provide general information about the difference between US GAAP and IFRS without giving detailed information about the different concept and application. This problem is usually found in the middle and small universities in Indonesia.

The accounting learning process at universities in Indonesia before the convergence to IFRS based on the research from Hartono (2006) are: (i) learning model that emphasizes on lecture system, (ii) students are not encouraged to analyze problems that occur in the real business world, (iii) students are not encouraged to provide critical thinking, (iv) students are used to memorize learning material. This accounting learning process result in the low quality accounting students since students do not have direct experience in applying the concept of US GAAP to prepare financial statement. Therefore, it is important for the universities in Indonesia to create learning model that is able to make students have abilities in analyzing accounting problems that occur in the real world due to the

convergence to IFRS and providing critical thinking.

The purpose of this paper is to find the appropriate accounting learning process at universities in Indonesia so that students have knowledge and skills in IFRS. The accounting learning process should be able to create students who have knowledge and skills in comparing and contrasting principle based standards and rule based standards, reading and comprehending IFRS, applying IFRS in recording business transactions, analyzing IFRS-based financial statements, using professional judgment in applying IFRS, reconciling IFRS with US GAAP-based financials, explaining the standard setting process for IFRS, and preparing financial statement under IFRS.

The study will be conducted by review the problems that occur in accounting learning process at universities in Indonesia. Afterwards, an appropriate learning model must be created to overcome the problems. The IFRS learning model from other countries that have already implemented IFRS will be analyzed. Not all of the learning model suit with the Indonesian condition. Therefore, evaluation of the strong and also the weak points of all the learning model on other countries are required in order to be able to find the most appropriate learning model for Indonesian universities.

## **Findings and Discussions**

### **The Effects of Transition to IFRS on Accounting Learning Process**

The convergence from US GAAP to IFRS has significant effects on accounting learning process at universities in Indonesia. There are many researches that relate to

the effects that occur due to the conversion to IFRS in other countries. Derstine and Bremser (2010: 9) and Thomas (2009: 370) mention that there is a considerable change of mind stream from rule-based into principle-based. US GAAP is a rule-based and a very regulated standard since there are a lot of standards that were issued under US GAAP. It creates a problem in the accounting learning process at universities in Indonesia because of limited time in studying financial accounting courses. Not every standard could be taught to students, so students only have little knowledge on how to prepare financial statement based on US GAAP. Contrast to US GAAP, IFRS is a principle-based standard which means that only major standards are issued. There is a high opportunity that students can learn all these standards when studying financial accounting courses.

Due to the major standards that were issued under IFRS, accountants need more professional judgment in preparing financial statement (Kroll, 2009: 54). The need to use more professional judgment will create a problem for Indonesian students since they rarely use professional judgment. Professional judgment in US GAAP is used only in certain area. Therefore, accounting learning process at universities in Indonesia should be changed. Students should learn how to use more professional judgment in preparing financial statement based on IFRS.

The need to use the work of other professions increases significantly due to IFRS. It happens since IFRS is a principle-based standard that needs more professional judgment. To be able to provide professional judgment needs deeply

knowledge about the area in which the accountants work. If the accountant is not familiar with the area where they work, they will use the help from other profession in providing professional judgment. For example, an accountant that is not familiar with the research and development process in the chemical product may use the help from chemist to provide professional judgment to identify the points in the development process that can be used to identify technological ability so that capitalization can be done. Therefore, it is important for Indonesian students to learn about how to integrate accounting with other subjects. Here, the function of lecturer is really important to motivate their students to broaden the horizons and to be diligent to find other information that cannot be covered in the class.

Accounting learning process should focuses on the use of fair value approach in measuring fixed asset due to transition to IFRS (Karr, 2008: 48). Indonesian students are used to apply historical cost in measuring depreciable assets because US GAAP requires the use of historical approach. Therefore, it is necessary for students to learn how to determine fair value and use this model.

According to the research conducted by Shinn (2009) that is cited in Yallapagrada, et al. (2011: 62), 42% of the professors in the US universities said that the transition creates a big problem for accounting learning process because the books that are still used by most universities are still based on US GAAP. Indonesian universities also face the same problem. Most lecturers still confuse to use the books that really suit

with the condition in Indonesia. What they do in giving lecture is just wait the new standard that will be issued in 2012. They just provide the information to their students that Indonesia will adopt IFRS in 2012 and then they try to discuss the difference between US GAAP and IFRS in a common way. Kroll (2009: 55) provides an advice to solve this problem by saying that lecturers can use IFRS materials that were developed by the Big Four accounting firms. The Big Four accounting firms are KPMG, Price water cooper House, Ernst and Young and Delloite. All these accounting firms are already issued some IFRS materials that can be used not only by business companies but also education institution to learn about how to implement IFRS.

Based on the survey to the managements on companies in Los Angeles, 95.4% of them mention that it is important to integrate IFRS into accounting curriculum at universities (Jones et.al., 2009: 90). Their arguments can be understood since capable accountants are really needed to handle the obstacles that occur during the transition process. 35.4% of the respondents provide suggestion to integrate IFRS into all financial accounting courses (Jones et al., 2009: 91). However, Fay et al. (2011: 357) say that in the preliminary integration, IFRS materials should be introduced and explained in the intermediate financial accounting course because the differences between US GAAP and IFRS relate with topics that are covered in this course.

In Indonesian case, the IFRS are better to be integrated in the intermediate financial statement course since the differences between US GAAP and IFRS are usually

found in the topics that are covered in the intermediate financial accounting course. Accounting students in Indonesia who study intermediate financial accounting should have ability to determine how to convert financial statement of the company from the one that is prepared using US GAAP to IFRS. Since in the convergence phase the companies must convert their financial statement from US GAAP to IFRS at least one year prior to transition date, it is necessary for Indonesian students to have general knowledge about:

1. Recognition of all the assets and liabilities required under IFRS, such as certain internal development costs and certain finance leases.
2. Derecognition of assets and liabilities not permitted by IFRS, such as post-acquisition restructuring. The companies that are regulated under US GAAP recognized post-acquisition restructuring on their balance sheet. Since recognition of this item is not permitted by IFRS, those companies have to delete all the records that are related to that event and measure the effect of removing the records.
3. Remeasurement of recognized asset and liabilities according to IFRS. This may be required if the basis is the same but measured differently (such as cost according to IFRS is not the same as cost according to US GAAP), when the basis is changed (such as from cost to fair value), or when there are differences in the applicability of discounting (such as provisions or impairment) and any other measurement differences.
4. Reclassification of items that were recognized as one type of asset, liability, or component of equity in accordance with US GAAP but are recognized as a different type of asset, liability, or component of equity in accordance with IFRS, such as debt versus equity, current versus non current and deferred tax items (Tomaszewski and Jermakowicz, 2010).

#### **How Should Accounting Learning Process Be**

Based on the effects that occur because of convergence to IFRS, accounting learning process at universities should focus on principle-based standard, more professional judgment and fair value measurement. According to Hartono (2006), the problems occur in accounting learning process at universities in Indonesia before the convergence to IFRS are: (i) learning model that emphasizes on lecture system, (ii) students are not encouraged to analyze problems that occur in the real business world, (iii) students are not encouraged to provide critical thinking, (iv) students are used to memorize learning material. All of these problems may cause students do not have enough experience to solve the problems faced by the companies in the real world. Finally, accounting learning process creates low quality accountants.

The convergence from US GAAP to IFRS adds problems that should be solved in accounting learning process at universities in Indonesia. Many lecturers still teach intermediate financial accounting based on US GAAP. They only provide general

information of IFRS. This situation really needs attention from IAI since students do not have knowledge and experience about practicing IFRS. After students finish their study in universities, they may not know how to implement IFRS.

Fuglister, et al. (2010: 23) stated that accounting learning process at universities should use experiential learning. In the experiential learning, students are learned to be a manager of the company. They do not only study how to record business transactions, but also how to analyze problems, to provide critical thinking and to make business decisions. These capabilities can be achieved through the use of case study. By using case study, students are encouraged to be active in solving problems. They do not memorize learning materials; they really use their brain to think and to analyze as they were a manager in the company.

The experiential learning through case study is also one solution that can be used to overcome the problem of convergence from US GAAP to IFRS in universities. Here, the function of lecturers is important in combining lecture system and creating case study that can enhance students to be active in the class. Since intermediate financial accounting course is the course that is really affected by the transition, the learning process that will be discussed below uses intermediate financial accounting as an illustration.

The case study that can be used is based on the guideline that is provided by IFRS 1. IFRS 1 requires companies to convert their financial statement from US GAAP to IFRS at least one period before the transition date.

Therefore, the case study that will be used in the class is about converting company's financial statement from US GAAP to IFRS one year before the company implements IFRS (Tomaszeski and Jermakowicz, 2010: 14). In the real world, an accountant is supposed to consider two things when the company wants to convert its financial statement based on the guideline from IFRS

1. The steps that need to be done by the accountant are:

1. Phase 1

a. Review the company's financial statement and summary of significant accounting policies. Prepare a list of accounting areas for which sufficient information has been provided to determine that conversion is required. The list also includes differences in presentation and accounting methods. For each item, list any additional information the accountant will need to obtain to complete the conversion.

b. Prepare a list of accounting areas for which adjustment may be necessary, but insufficient information was provided to make an accurate assessment. List the specific information the accountant will need in order to conduct advance analysis.

2. Phase 2

a. Use the additional information the accountant gathered to prepare a list of journal entries converting the company's US GAAP financial statement to IFRS.

b. Record the conversion entries and make any necessary changes to present the company's balance sheet

and income statement in accordance with IFRS for the year before the transition date (Fay, et al., 2011:341-342)

The steps that are implemented by Fay, et al are necessary to learn the changes of convergence from US GAAP to IFRS. IFRS 1 regulates that the first user of IFRS must disclose all the impacts that occur due to the transition to IFRS. By doing those steps, students are expected to have direct experience in converting financial statement from US GAAP to IFRS and making adjustments in order to be disclosed to the investors.

The case study developed in the class also follows all those steps. Here, students act as an accountant that has a duty to convert financial statement in the company they work and a lecturer act as another part in the company that provides additional information to the accountant. The lecturer asks students to do first assignment which is the phase 1 of conversion. Students have to analyze financial statement prepared based on US GAAP, determine the areas that need adjustment so the conformity with the IFRS can be achieved, and find information from other parties in the company so that conversion can be completed. Students get additional information from lecturer in the second phase. Afterward, the lecturer gives instruction to students to convert the balance sheet and income statement. By doing case study that relative the same as what accountants do in the real world, it is expected that students may have sufficient knowledge about the difference between US GAAP and IFRS theoretically and practically, have experience in converting financial

statement from US GAAP to IFRS and apply problem solving skill to finish complex accounting task (Fay, et al., 2011: 357). Fay's solution can be done in three different ways.

The first learning design as suggested by Fay, et al. (2011: 357) divide intermediate financial course into two semesters. In the first semester the lecturer explains all the topics discussed in the intermediate financial accounting course. The lecture is emphasized on the difference between US GAAP and IFRS in each topic. Then, in the second semester, the lecturer asks students to do two assignments. The first assignment is doing the first phase of the transition step and this task will be submitted in the middle of the semester. After submitting the first assignment, the lecturer provides additional information as requested by students. Based on the information given, students then complete the second phase. The second phase which will be the second assignment should be submitted at the end of the semester.

The second solution that can be implemented in the class is by giving lecture about general differences between US GAAP and IFRS in the first meeting. After that, the lecturer asks students to do phase 1. In the next meeting, the lecture discusses the answer of phase 1 and provides additional information needed to complete phase 2. Lecturer discusses about cash and cash equivalents based on US GAAP and IFRS. Afterward, students do the phase 1 with the topic cash and cash equivalent. Then, student will be provided additional information in the following meeting to complete phase 2 with the same topic. This

way is done routinely to all topics in the intermediate financial accounting course until the end of the second semester. At the end of second semester, students will post all the journal entries prepared throughout the two semesters and finish converting financial statements into IFRS. 84 % of students respond that their knowledge of IFRS increase after they do those assignments and they recommend to continue to use this method. (Fay, et al., 2011: 358).

The third solution to overcome the problem is by breaking case study into two different parts. The first part that discusses about the left side of the balance sheet (assets) will be examined in the first semester. Then, the right side on the balance sheet (liabilities and equities) will be discussed in the next semester. In the first semester, students are provided instruction to do phase 1 for every topics in the area of assets. The first phase will be submitted two-third of the way through the semester. After that, the lecturer provides additional information that is asked by students. The phase 2 of the transition process should be done at the end of the first semester. The same way also occurs in the second part of the course. The difference is only located on the topics that should be examined. 80% of the students agree that this method could help them to increase knowledge about IFRS and suggest to use the same method for future course (Fay, et al., 2011: 359).

It seems that solution two is the most possible solution to be done at universities in Indonesia because students can practice phase 1 and phase 2 directly after they receive theoretical information from their

lecturer. At the end of the second semester, they will know how to convert the whole financial statement from US GAAP to IFRS. The third solution is relative the same as the first one. However, students are not asked to combine journal entries done in the first semester and in the second semester. Therefore, there is a possibility that the students never do the conversion for financial statement in the whole year by using IFRS. The weakness in solution one is that it really needs a good coordination between the lecturer who teach in the first intermediate financial accounting course and the lecturer in the second intermediate financial accounting course. The problem may occur when the lecturers in those two courses are different and one lecturer does not agree with the learning design from another lecturer. In addition, students may forget what they learn in the first semester and they need more time and effort to do phase 1 and phase 2 in the second semester.

Another approach to solve the problems is suggested by Ragan et al. by using ERP software to teach IFRS to undergraduate students. There are five modules that should be done by students. The first four modules contain materials (ledger phase, purchasing, sales, and financial statement analysis) that should be prepared base on GAAP. Then, the last module asks students to make adjustments to bring US GAAP financial statement to IFRS. Students are instructed to do module 4 again (calculate financial ratios) and see the effects on going from US GAAP into IFRS (Ragan et al., 2010: 57-58). From a survey to students who already learn ERP software, 94% of them



agree or strongly agree that ERP software can help them to mastering the differences between US GAAP and IFRS and they agree that this software should be continued to be used in teaching IFRS. Even though the solution offered by Ragan et al. may help students to have better understanding of the differences between US GAAP and IFRS, this solution seems difficult to be applied by universities in Indonesia. The costs that must be paid by universities are considered to be a primary obstacle to use ERP software.

Fuglister et al. (2010: 23) also use case study to introduce the differences between US GAAP and IFRS. They call their approach as open-ended experiential learning case which means cases that do not have specific answers but hone critical thinking skills because they require students to solve problems that are not like other problems they have encountered. Here, students identify 10 nontrivial differences between US GAAP and IFRS methods of recognition and measurement and the effects of those differences on financial ratios in each topic discussed in the class. After this task has been submitted and marked, students present their findings in front of the class. It is expected that there will be a discussion among students in the class, so they can together construct the differences and the implications of moving to IFRS. This solution is considered as a good solution since it really emphasize on students' activities to discover information and build knowledge of IFRS by themselves. However, this learning method does not provide an opportunity for students to apply IFRS in preparing financial statement. Students do

not have any experience to record business transactions and prepare financial statements based on IFRS.

### **Conclusion**

Convergence to IFRS has significant changes in accounting learning process in Indonesia. The learning process now should be adjusted so students have knowledge and skills about IFRS. It is necessary to modify accounting learning process so that it can covers all the changes from convergence to IFRS, such as focus on more principle-based standards, professional judgment, fair value measurement and integration with other field of studies. Experiential learning through the use of case study is considered as the most appropriate learning model to increase students' understanding on IFRS. The experiential learning should be implemented in the intermediate financial accounting course since this course is really affected by the convergence to IFRS. First, the lecturer provides general information about the difference between US GAAP and IFRS. Then students are asked to review the company's financial statement and summary of significant accounting policies and prepare a list of accounting areas for which adjustment may be necessary. After that, lecture will provide additional information for students so students can complete the adjustments. Second, based on the first step, students make conversion entries from US GAAP to IFRS. The first and second steps are conducted routinely for each account during the whole semesters (2 semesters). At the end of the second semester, students will collect all the conversion entries and

preparing financial statement based on the conversion entries. By using this learning model, it is expected that students will have direct experience in converting financial statement from US GAAP to IFRS.

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